

DRAFT Minutes of the Strategic Planning & Finance Committees of CareFirst, Inc.

Thursday, May 24, 2001

11:30 a.m. – 1:00 p.m.

At Its Headquarters in Owings Mills, Maryland

Members Present: Charles W. Shivery (SPC Chairman); Daniel Altobello; Edward J. Baran (by phone); Max S. Bell, Jr., Esq.; Joseph Haskins (Compensation Committee); Sister Carol Keehan, R.N., M.S.; Roger C. Lipitz; Patricia E. Lund, Ed.D., R.N.; Robert H. Naftaly; Robert Rider (Finance Committee); James C. Simpson (Finance Committee); George B. Wilkes, III (Compensation Committee)

Also Present: William L. Jews; Mark Chaney; Gregory A. Devou; Leon Kaplan; Paul King; John A. Picciotto; Sharon Vecchioni; David D. Wolf; Sandy Beard; Ellen Brown; Jay Smith; Stuart Smith; Mark Meudeking; Michael Muntner; Andrew Rymer; Tom Sand; Steven Bloom

The meeting was called to order by Chairman Shivery.

Staff and advisor presentations were made through use of a handout which had previously been distributed to the Committee, and which is made a part of these minutes.

The minutes from the March 23, 2001 Strategic Planning Committee and the Finance Committee meeting were approved as submitted.

Mr. Shivery noted that a core objective of the monthly meetings is to ensure that all questions regarding the proposed transaction are answered to the full satisfaction of the Committee members. He encouraged attendees to raise any open questions they had regarding the transaction.

Mr. Jews began with a report on recent legislative activity. In particular, he noted that the Governor had signed a bill eliminating the two-thirds approval vote by certificate holders to approve CareFirst conversion to a for-profit entity.

Then, Mr. Jews reported on multiple open issues raised by the BCBSD Board of Directors regarding the proposed transaction. Mr. Bell noted that management had responded to the Board's questions, to date.

Mr. Jews continued with a detailed discussion of the six key open issues surrounding a transaction with Pacific. These included legal issues, social issues, due diligence findings, operational interfaces, compensation issues, and public relations plans.

Mr. Jews classified the legal issues as being 95 percent complete. There were a total of seven significant legal issues. The first significant legal issue is Pacific's request for approval of significant CareFirst business decisions that might occur prior to closure. CareFirst recommends modification of this requirement to ensure that corporate ability to continue day-to-day operations is not jeopardized. The second issue is CareFirst's request for recourse in the event of any material adverse change in Pacific's business, similar to the provision to which CareFirst is bound in the current draft agreement.

Among the remaining legal issues, there was discussion of the need to address the terms of the subordinated notes. Stuart Smith—of CSFB—noted that notes would only come into play if Pacific stock falls below the \$70 floor. He reported that from an investment banker's perspective, this is a favorable provision, and that it is unusual to see this sort of guarantee. The final legal issue discussed was CareFirst's request for Director indemnification for six years

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after closing. This provision has been requested, and would indemnify Directors for decisions made during the period through closing.

Mr. Jews continued with a discussion of the nine social issues. The role of Pacific's subsidiaries in the Eastern region was highlighted. These items are slated to be finalized between the CEO's.

Due diligence findings regarding Pacific were reviewed. Mr. Jews noted that four areas emerged, with one being very significant. Specifically, the potential for reductions in associate benefits was viewed as unacceptable by Mr. Jews and the management team. Other items that emerged during due diligence include the means by which Pacific interacts with both distributors and providers. In addition, Mr. Jews expressed concern over the potential impact of being required to unilaterally apply "The Pacific Way" of management on CareFirst, given the organization's unique role in the marketplace. Mr. Jews closed the due diligence discussion by highlighting opportunities to work with Pacific on operational initiatives such as HIPAA and the data center, as well as the need to coordinate public relations activities, especially prior to announcement of a transaction.

At 12:30 p.m., the Committee broke for an Executive Session, which subsequently adjourned at 1:30 p.m.

David D. Wolf
EVP, Medical Systems and
Corporate development

CareFirst, Inc.

June 2001 Financial Results

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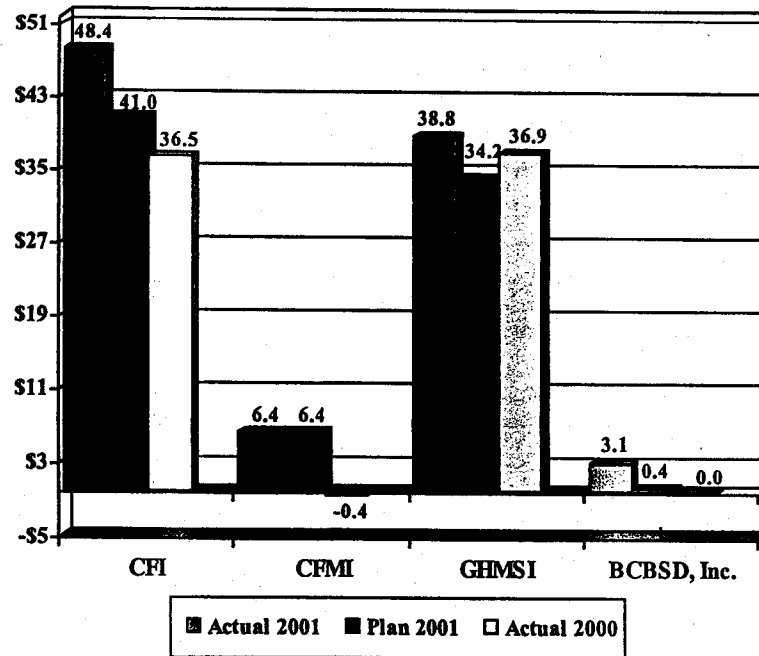
CAREFIRST, INC. AND AFFILIATES
June 2001 Consolidated Operating Results
(\$ in thousands)

	MONTH				Y-T-D				
	2001 Actual	2001 Plan	Variance Fav/(Unf)	2000 Actual	2001 Actual	2001 Plan	Variance Fav/(Unf)	2000 Actual	12/31/01 Plan
Revenue	\$506,067	\$490,737	\$15,330	\$459,151	\$2,923,311	\$2,881,632	\$41,679	\$2,611,560	\$5,902,245
Incurred Care	458,853	442,467	(16,386)	417,821	2,637,982	2,594,289	(43,693)	2,362,688	5,303,194
Contribution Margin	47,214	48,270	(1,056)	41,330	285,329	287,343	(2,014)	248,872	599,051
Operating Expenses	45,100	44,198	(902)	39,676	263,533	263,468	(65)	233,779	539,964
Underwriting Gain	2,114	4,072	(1,958)	1,654	21,796	23,875	(2,079)	15,093	59,087
Interest & Other Income	6,178	4,714	1,464	4,415	38,345	27,579	10,766	27,808	56,993
Income Before Taxes	8,292	8,786	(494)	6,069	60,141	51,454	8,687	42,901	116,079
Provision for Income Tax	(976)	(1,817)	841	(1,187)	(11,755)	(10,427)	(1,328)	(6,450)	(24,080)
Net Income from Operations	7,316	6,969	347	4,882	48,386	41,027	7,359	36,451	92,000
Business Comb. Costs (After Tax)	0	0	0	0	0	0	0	(12,911)	0
Net Income	\$7,316	\$6,969	\$347	\$4,882	\$48,386	\$41,027	\$7,359	\$23,540	\$92,000
Loss Ratio	90.7%	90.2%	-0.5%	91.0%	90.2%	90.0%	-0.2%	90.5%	89.9%
Operating Expense Ratio	8.9%	9.0%	0.1%	8.6%	9.0%	9.1%	0.1%	9.0%	9.1%
Underwriting Margin Ratio	0.4%	0.8%	-0.4%	0.4%	0.7%	0.8%	-0.1%	0.6%	1.0%
Net Income Ratio (from operations)	1.4%	1.4%	0.0%	1.1%	1.7%	1.4%	0.3%	1.4%	1.6%
Return on Equity					14.1%	12.0%	2.1%	7.6%	12.3%

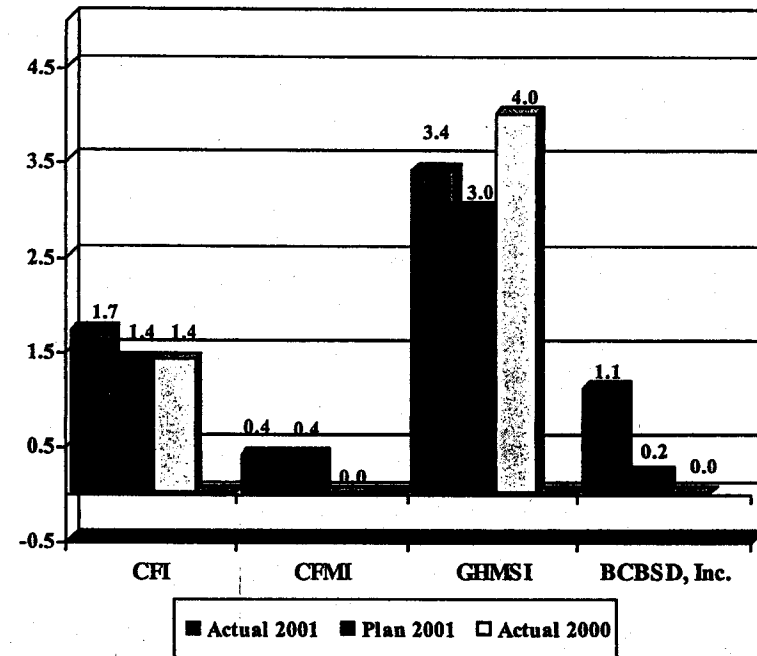
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2001 Actual vs. Plan June YTD Net Income - Operations

Net Income - Operations
millions



Net Income Ratio
percent (%)



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